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ECONOMIC DEVELOPMENT AND THE ⁴⁸OLD⁷⁵ INTERNATIONAL ORDER,

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I. INTRODUCTION¹

The past decade has witnessed significant changes in the international economy, for example: a shift from fixed to flexible exchange rates; the formal "demonetization" of gold, followed by an enormous increase in its dollar price; the continuing, and occasionally massive, Soviet purchases of grain in world markets. Two other events are even more significant: first, the dramatic increase in world oil prices, leading to a redistribution from the oil importing countries to the oil exporters of two or three percent of the world's annual gross product; and second, the extraordinary success of a small number of developing countries in achieving sustained economic development in sharp contrast to the lack of such success in the 120 or so remaining non-OPEC less-developed countries.

The first of these two major changes has received, and is receiving, abundant--perhaps superabundant--attention, while the second has been relatively ignored. Though interesting, this imbalance isn't surprising. The rapidity, as well as the scale of the jump in oil prices, and the pervasiveness of its effects throughout the international economy, account for the widespread attention it has received. While much more remains to be said and done on this subject, that is not my concern here.

Instead, I want to address the second issue: the remarkable record of a small number of less-developed countries (the so-called Newly Industrialized Countries--especially Korea, Brazil, Taiwan, and Singapore) in realizing sustained economic development in the past decade.² (I define "sustained economic development" as the achievement of an annual rate of growth in real GNP of at least eight percent for the decade as a whole.)

¹An earlier version of this paper will appear in French translation in the journal *Politique Internationale*.

²I leave Mexico out of this discussion because of the special role of oil in its successful development record. The major OPEC countries are excluded for the same reason.

In comparison with the obvious significance for the international economy of the changes in oil supplies and prices, the major significance of the NIC's development record warrants explanation and emphasis. Spirited advocacy of a "new international economic order" continues in such forums as the recent U.N. Conference on Science and Technology for Development, and the Havana conference of non-aligned countries. Yet the record of the NICs in the past decade plainly suggests that dramatic and sustained economic development can be accomplished in the "old" international economic order. Moreover, by examining this record, and by comparing it with the largely disappointing experience of most of the non-OPEC developing countries, perhaps some lessons can be learned that may assist these countries to improve their own performance in the future, if they are seriously motivated to do so.

Three questions warrant attention:

- What recipes or principles for sustaining economic development can be inferred from the experience of successful developing countries?
- If there are such principles, why haven't more of the LDCs adopted them?
- And what are the prospects for their doing so in the future?

I will concentrate on the first question, considering briefly the other two in conclusion.

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II. RECIPES FOR SUSTAINED ECONOMIC DEVELOPMENT

Generalizations are hard to maintain because special circumstances make each country an individual case. National histories, institutional structures, cultures, and traditions, affect, sometimes powerfully, national economic development.

Nevertheless, I believe certain generalizations can be made drawing from both economic theory and development experience. These generalizations, or "recipes" for sustained national economic development, are supported by the few cases of successful modernizing countries over the past decade and, by counterexample, by the larger number of less successful countries, as well. I will try to cite examples to illustrate particular recipes, drawing upon this contrasting experience. The generalizations may be likened to an architect's initial design, a sketch indicating the contours of a building which may be altered in scale and detail to fit the terrain before construction begins.¹

A. Political Ingredients

That successful economic development is a problem of political economy, rather than "pure" economics, is no less true because it is a cliché. At the risk of oversimplifying, let me suggest the political conditions that seem crucial for economic developments.

Sustained economic development requires "political stability," although it may also contribute to such stability. As a condition for economic development, "political stability" has certain quite definite, and even measurable, attributes. They include especially the following: an explicit and enforced system of laws, or rules

¹ I believe the recipes would be accepted by most people who are knowledgeable in this field, although one should be wary about the possible tautology ensuing from my use of the term "knowledgeable"!

for the conduct of affairs; nonviolent economic transactions; a respected system of property rights, providing with reasonable clarity a delineation of what is public and what is private property; established and accepted rules for governmental succession, or at least infrequent occurrence of regime changes. (On this last item, democracies in developing countries may face particular difficulties in achieving sustained economic development, although the experience of Singapore, as well as that of Mexico, and Malaysia, provide evidence that these difficulties can be resolved or surmounted).

Why is political stability so essential for sustained development? I think the answer is that political stability reduces uncertainty or, equivalently, increases predictability in the particular domains, noted above, that define it. While "political" uncertainty is thereby reduced, economic and technological uncertainty remain. This residual economic-technological uncertainty is ineluctable; attempts to ignore or remove it will generally backfire. The reason is that the "best" choices as to which products or services to produce, and which processes to use in producing them, are usually not known in advance. Alternatives must be developed and tested. Typically, some degree of decentralized decisionmaking about the alternatives, and competition among them, helps assure that the best will survive and prosper. In this sense, the residual economic uncertainty, lodged in a competitive environment, can have a positive effect on prospects for sustained economic development because it provides an opportunity and incentive for innovation and increased productivity. It thereby provides a useful, though certainly not infallible, mechanism for distinguishing and selecting between more and less productive uses of resources.

By contrast, political uncertainty or instability does not have this growth-promoting effect. Instead, it may place in jeopardy otherwise sensible economic transactions, and provide incentives to divert resources from producing goods and services to producing political favors and insurance. Consequently, removing or reducing

these forms of uncertainty (by the maintenance of political stability) is likely to contribute to development.

It should be evident, of course, that political stability is a necessary, not a sufficient, condition for sustained development. Sufficiency requires that political stability be combined with the economic conditions, to which I now turn.

B. Economic Ingredients

1. Market Orientation

Sustained development seems to be closely associated with a high degree of economic decisionmaking in response to market forces. This is not to say that markets and market prices have the appealing characteristics associated with neoclassical models of perfect competition. Indeed, the typical product and factor markets of developing countries have even more than the usual market imperfections normally associated with the economies of developed countries. But, even granting the numerous sources of market failure that inevitably result in marked inefficiencies in the use of resources, the failures of non-market alternatives to yield efficient outcomes are typically even more pronounced. At least, this conclusion appears warranted from the contrasting experience of the few successful developing countries, and the large number of unsuccessful ones; the former have typically been characterized by a more active role for market forces than one finds in less-successful developing countries.¹

¹ I am agnostic on the point of whether certain countries among the centrally planned economies (perhaps Rumania or North Korea) represent counters to these observations. One question arises as to their real economic growth rates if their output statistics are properly deflated and interpreted. If the meaning of "sustained economic development," is enriched to include, say, a five percent or higher annual rate of growth in per capita consumption, a question arises as to whether the CPEs would qualify. And there is, finally, a question as to whether some CPEs have themselves begun to take advantage of what I've called "market orientation," for example, by competing in international markets against the exports of other countries.

Even if the growth rates of some CPEs would enable them to meet

In other words, "non-market failure" is no less, and typically is more, of an inhibitor of development than is market failure.¹

When one examines the development experience of the high and the low performers, it is noteworthy that probably the main growth-promoting effect of market forces and market prices does not occur through the static, allocative efficiency so cherished in standard micro-economic models. Rather, the effect of a market orientation is to set in motion dynamic economic changes through the pressures of competition, incentives for innovation and increased productivity, and through the severe screening and discipline imposed by market forces.

This is not to say that the role of markets is or should be unfettered in the developing countries, or in developed countries. Government policy interventions have played major roles in the successful development records of Brazil, Korea, and Taiwan. For example, agricultural prices in Korea have been pegged for the past decade at levels above the world market in order to maintain rural incomes at a parity with those of urban workers, thereby discouraging excessive urbanization, as well as providing incentives for increased agricultural output. This was a special and selective policy

the criteria of "sustained economic development," it seems clear that their developmental records have been markedly less efficient than those of the high performance LDCs (such as Korea, Singapore, Brazil, and Taiwan), in which the role of market influences has been unquestionably larger. By efficiency, I mean simply that capital-output ratios and input-output ratios appear to have been substantially higher in the centrally planned economies than in the others. To the extent that some of the CPEs do in fact meet the criteria of sustained development, they appear to do so by virtue of mobilizing a large volume of inputs: the "big" push, rather than the efficient one. At the same time, it may be argued that there is a tradeoff between efficiency and equality in their development records. The extremes between high and low incomes and wealth may be less in the successful CPEs than in the successful "market" economies. I have heard assertions, but have not seen evidence, to establish this position.

¹The important, and neglected, phenomena of non-market failure are discussed in my paper, "A Theory of Non-Market Failures," *The Public Interest*, Volume 55, April 1979.

intervention, deliberately chosen for social and political reasons, rather than for reasons of economic efficiency. It is interesting, too, that the agricultural price supports have gradually been lowered, and are now to be removed.

Also, "infant" export industries have been initially encouraged in the NICs by various means, including preferential tax treatment of export earnings. But full-cost pricing of inputs, and gradual reduction or removal of favorable tax treatment, have typically been enforced. Import substituting industries, though initially protected, have been forced to compete with foreign imports. Korea, for example, is currently a more "open" economy than is Japan!

In all of these cases, policy interventions have been important. Also, they have usually been selective, precisely targeted, limited in number, and implemented through price incentives rather than more direct controls. The general principle remains: the market mechanism has typically played a substantial role in the economies of the successful developing countries, thereby providing powerful incentives for innovation and efficiency, and exercising a strict discipline to filter out waste and inefficiency.

Strictly speaking, this point about market orientation is not equivalent to an argument in favor of private, rather than public, enterprise. Rather, the point is that neither public nor private enterprise is likely to perform efficiently in a static, allocative sense nor in a dynamic, innovative sense, without the spur and challenge of some form of market mechanism.

One reflection of the predominant market orientation of the high performing countries has been the sharp increases in their exports on world markets. Clearly, exports have to compete in world markets, and this tends to produce the discipline, screening, and incentives referred to earlier. When export expansion occurs in response to such "natural" forces and opportunities, it is surely growth-enhancing. For example, Korea's annual rate of growth in export volume between 1973 and 1978 was nearly 20 percent, and that of Taiwan nearly 15 percent in real terms.

Brazil's exports grew at an annual rate of 4.8 percent in this period, but its export growth rate was nearly 20 percent per annum in the prior 1966-73 period.

However, I would express some uneasiness lest the currently fashionable enthusiasm for export promotion might lead in the direction of protected (by subsidies) and fragile export industries. Excessive use of export subsidies and other special measures to promote exports may cause a waste of national resources, just as an overactive effort to promote import substitutes, insulated from market forces and prices, has done in the past.

One particular type of export may be worth greater attention, on comparative cost grounds, than it has usually received in development planning: the combination of unskilled and semi-skilled labor, together with management and technological skills, in performing a variety of construction and engineering services abroad. The success of Korea in this form of 'packaged' services' export may be worth study and emulation. Building from a figure of a few hundred million dollars in earnings and remittances only four or five years ago from such exports, Korea currently is realizing earnings and remittances of over \$4 billion a year from engineering and construction services performed in foreign countries, most notably in the Middle East. These earnings are equal to about one-third of Korea's foreign exchange earnings from exports of goods. This experience is probably more relevant for countries like Turkey or India, that have already reached a requisite threshold of development in certain technologically-advanced sectors of their economies, than to the majority of the less-developed countries.

2. Inflation

The perverse effects of hyperinflation on economic growth are both serious and well known. The past and recent experiences of developed countries (e.g., the United Kingdom, Italy, and currently, the United States), as well as that of developing countries (e.g., Argentina, Colombia, Turkey), provide ample support for this proposition. Hyperinflation results in capital flight, and generates disincentives to capital inflow, as well as reducing remittances from abroad. If the

exchange rate is pegged, or the rate is only allowed to depreciate more slowly than the rate at which prices of tradeable goods and services are rising, then the result of hyperinflation is to stimulate imports and to penalize exports. Hyperinflation also tends to discourage internal investment, as well as to divert it to rapidly inflating commodities, such as real estate and precious metals, thereby transferring investors' wealth to the original owners who are more likely to increase their consumption. These symptoms have certainly characterized the economic maladies of various developing countries in recent years.

While there is a consensus about the foregoing perverse effects of hyperinflation, there is less agreement as well as less supporting evidence as to whether "modest" inflation may be consistent with, or even help to advance and sustain, economic development. For example, it is sometimes argued that a modest rate of inflation may help development by raising the rate of (forced) savings, and by validating, and thereby stimulating, investment (to the extent that increases in costs don't take fully or "rationally" into account expectations about future increases in prices).

As I have indicated, opinion tends to be divided on this argument. The International Monetary Fund and World Bank usually are categorically opposed to it; some others, particularly in Latin America, often support it. There is at least some evidence (for example, in the experience of Brazil, Korea, and Taiwan), that a modest rate of price inflation is compatible with sustained economic growth.

My own judgment is closer to, though perhaps not as categorical as, that of the IMF and World Bank. In part, the issue relates to where one establishes the threshold of "modest" inflation that is compatible with, let alone contributing to, sustained development. This threshold would seem to lie somewhere below 10 to 15 percent as an annual rate of permissible inflation. This rate is in fact capped in most cases of sustained development in the successfully developing countries. However, even at this threshold, questions arise as to whether such a threshold can be maintained: (a) if rational, rather than adaptive expectations prevail in the economy; and (b) if monetary policy is, or becomes,

accommodating of the rate of inflation. If these conditions exist, the 10-15 percent range may be short-lived.¹

3. Capital Inflow and Foreign Investment

Capital inflow has provided a critical input to the sustained economic performance of the Newly Industrialized Countries. For example, in Korea foreign capital inflow in 1978 amounted to approximately \$2.6 billion, over 20 percent of Korea's total export earnings. And the bulk of the capital inflow (about \$2.0 billion) was on long-term capital account. I think this pattern is likely to be characteristic of sustained growth in the developing countries.

Different types of capital imports have differing consequences. Hence, the composition of capital inflow is as important as its magnitude. For example, capital inflow can be accommodating (i.e., equilibrating the net surpluses or deficits on current account), or it can be autonomous, in response to market incentives. Capital inflow can take the form of short- or medium-term borrowing or program foreign aid (of the type extended in the past to Korea, as well as India, Turkey, and other countries), as examples of accommodating inflows. Capital inflows can alternatively take the form of long-term borrowing and foreign direct investment, as examples of autonomous inflows. A useful role can be played by both types of capital inflow.²

In Brazil, Korea, and Taiwan, for example, the bulk of the capital inflow--about two-thirds or three-quarters--is probably autonomous and long-term, with an initially small component of direct investment that rose substantially as the economy's growth and potentialities were demonstrated. In 1967-69, for example, direct investment in Korea averaged

¹ Israel's recent record of reconciling three-digit inflation with significant growth in real GNP does not seem to me to disconfirm the preceding observations. Not only is the adroitness of its indexation policy atypical of other countries, but Israel's ability to finance the resulting balance of payments effects is unusual, and likely to be temporary.

² It would be interesting and useful to consider the notion of an optimal "balance" between them, depending on the stage of a country's economic development and modernization.

only \$24 million, or about 5 percent of Korea's annual net borrowing. By 1972-74, annual direct investment reached \$172 million, about 24 percent of foreign borrowing.¹ Direct investment in Brazil has played a relatively larger role.

By contrast, in most other less-developed countries, cumulative capital inflow in recent years has been of the accommodating, short- and medium-term type. For example, of Turkey's total external indebtedness--approximately \$13 billion at the end of 1978--more than \$7.5 billion was short- and medium-term debt.²

The direct investment component of capital inflow warrants special comment.³ There are important economic and technological advantages associated with foreign investment, as well as some possibly significant political disadvantages.

Foreign direct investment (FDI) typically includes as part of the investment package, new technology that can usefully be adapted and diffused throughout a newly developing economy. Also, the debt service entailed by FDI tends to be flexible, and related to the performance of the host economy. Consequently, to the extent that capital inflow is in the form of FDI, as well as long-term loans, the economy is better able to keep its debt service ratio within a range of, say, 10 to 15 percent, rather than the 35 percent or higher figure that currently faces Turkey.

FDI is also typically, though often indirectly, related to increases in exports, especially exports to the home country from which the investment came in the first instance. The increased exports often resulting from FDI typically occur because the foreign investors are able to anticipate and resolve the distribution and marketing problems facing exports

¹ See Anne O. Krueger, *The Developmental Role of the Foreign Sector and Aid*, Cambridge, 1979, pp. 145-147.

² See Report and Recommendation of the President of The World Bank to the Executive Directors on a Proposed Loan to Turkiye, Sinai, Kalkinma, Bankasi, June 21, 1978, page 11.

³ One of the shortcomings of large macro-econometric simulation models, currently in favor in The World Bank and in many developing countries, is their tendency to treat capital inflow as a single variable, without distinguishing the different types, the incentives to which they respond, and the different effects which they have.

to their own markets. This know-how can be important. For example, while the Generalized System of Preferences (GSP) of the U.S. Trade Act of 1974 allows imports to the U.S. of over 2,700 products from the developing countries on a duty-free basis, to take practical advantage of GSP requires the distributional and marketing know-how that is apt to be associated with foreign investment in the LDCs, or with joint ventures that combine foreign investment with local investment, or with direct marketing and licensing agreements.

The Korean experience is a case in point. During the past decade Korea's rate of real economic growth has been over 9 percent per annum. In the same period, its exports to the United States have grown by a factor of 17, from \$237 million in 1968 to \$4.1 billion in 1978 in current prices, a factor of over 5 in constant prices, and an annual rate about twice that of Korea's GNP.¹ Moreover, contrary to some views, this remarkable expansion has not been due to special access by the Koreans to the U.S. market through tariff preferences or preferential treatment with respect to non-tariff barriers. Among the major explanations for this striking development have been marketing and licensing agreements with foreign firms, a small but growing quantity of American direct investment in Korea, and joint Korean-American enterprises, able to enter and expand distribution in the American market through the marketing know-how and experience associated with these enterprises. This pattern has characterized expanded Korean exports of clothing, luggage, shoes, and electronics. In other words, foreign direct investment has been a means of stimulating exports.

At the same time, there are also risks and disadvantages associated with foreign investment. Nationalist resentment against foreign economic intrusion may be active, or be activated. Foreign investors may behave with less consideration of local customs and culture than would be desirable. They may favor importing foreign managers rather than training local ones. Governments that are hospitable to FDI may be or become vulnerable targets for charges of foreign influence or subservience. The list of political hazards is long.

¹Exports in current prices deflated by Korea's export unit-value index. International Monetary Fund, *International Financial Statistics*, November 1975 and August 1979.

Clearly, each developing country has to make its own decisions about where the balance lies between the economic advantages and the political risks and disadvantages associated with FDI.

4. Technological Importation, Adaptation, and Diffusion

Rapidly growing economies, whether newly developing or advanced, are characterized by a high rate of technological progress. There are various ways of measuring this progress. The simplest and most frequently used method is to calculate increases in labor productivity, which typically rises at an annual rate of perhaps 5 to 7 percent in rapidly growing economies. However, labor productivity is an ambiguous indicator of technological progress, strictly construed, because labor productivity may rise due to increases in the capital-labor ratio without any necessary changes in technological production functions. The latter is more accurately discernible through increases in total factor productivity, rather than the productivity of labor alone. This measure--the ratio between increased real output and an appropriately weighted sum of both capital and labor inputs--also tends to rise dramatically and protractedly in rapidly growing economies, at a rate of about 5 percent per year.¹

Needless to say, there are a number of contributors to these calculated advances in technology, as well as myriad problems of accurate measurement. For example, part of the calculated estimates of increased total factor productivity typically results from a shift of factors of production, especially labor, from lower productivity sectors, such as agriculture, to higher productivity sectors in industry. Another part

¹ A similar rate seems to apply to both fast-growing developing countries and developed countries, exemplified by Taiwan and Japan, respectively. By contrast, the growth realized by slowly growing countries seems to be fully accounted for by increases in inputs of capital and labor. In these cases, increased labor productivity is realized only by increases in capital-labor ratios, rather than by increases in efficiency. See C. Wolf, R. Gangadharan, and K. C. Han, *Industrial Productivity and Economic Growth*, Tokyo, 1964. See also E. E. Hagen, *The Economics of Development*, Homewood, Illinois, 1975, pp. 253-260.

of the "residual" in such productivity estimates may result from improvements in human resources, through education and training. But a substantial part of the residual is due to technological advancement: to improved modes of production; to innovation in both what goods and services are produced, and how they are produced; to modernization of management, as well as equipment.

How can developing countries realize more rapid rates of technological progress?

One way is through direct investment from abroad which, as I have already suggested, typically combines the import of new technology together with the investment package. But there is also a growing market for "unpackaged" technology, for purchasing engineering and management services to collaborate in the design, construction, operation, and training functions associated with the establishment of productive new technology.¹ Where new technology is bought on the open market, it is important to realize the special nature of what is being acquired. Technology should be thought of as a flow rather than a stock variable; that is, as a process that requires adaptation, renovation, and modification if it is to be successful and sustained, rather than as a tangible entity that, when once purchased, is securely acquired. All too frequently, a "turn-key plant," originally purchased at a high price by a developing country, is poorly maintained, breaks down or functions at a low rate of capacity, or fails to be replicated and diffused in the host country. Without the necessary environmental support, the result is at best a temporary enclave of modern technology, and at worst a complete waste of national resources.

¹ It should be evident that not all new technology is "productive" in the sense of being efficient, given its costs. For example, capital-intensive technology may not be "productive" in developing countries, whose costs of capital are likely to be high relative to labor costs. In developing countries, new technology that is also productive is likely to be labor-using and capital-saving, in the aggregate, even though the new technology is likely to require different capital inputs.

C. Security Ingredients: Relationships Between Economic Development and Military Development

The standard, conventional view of the relationship between economic development and military development is that they are competing claimants for scarce and fungible resources. The more guns produced or procured, the less butter will be available or, for that matter, the less machinery, the fewer textiles and leather fabricating plants, transportation vehicles, and so on. Resources are fungible, and military development is likely to absorb resources otherwise available for developmental investment or for personal consumption.

This is the predominant relationship that exists between economic and military development in static, allocative terms, and under macro-economic conditions that are more or less in equilibrium (i.e., resources are more or less fully employed, political externalities and expectations are assumed to be constant, etc.). It is the predominant relationship that obtains in most developed countries, and in those LDCs that come close to these equilibrium conditions.

However, in the real world, the relationships between military and economic development are more complex, both in economic and in political terms. For example, economic conditions in developing countries typically are very far from equilibrium. Hence, resources used for military purposes (more likely labor than capital) may not reduce, and instead may even supplement, resources contributing to economic development. It may then be possible to have more guns and butter, too.

Furthermore, economic development itself is typically politically and socially destabilizing, if not disruptive, at least in the short and medium term. In the absence of appropriate and sufficient military and security capabilities to prevent or contain the disruption, economic development may be aborted. The political ingredients necessary for sustained economic development may be vitiated. By averting this outcome, resources devoted to security purposes may complement, rather than conflict with, economic development. That this may be the outcome in some

cases, of course, does not imply that it will be in all or most. The development and use of military capabilities and forces may also set back economic progress, both internally and externally.

To deal with the security dimensions of development would carry me beyond the limited space of this paper. These brief observations are simply intended to suggest that the military and security dimensions of sustained economic development are both more complex and more important than is generally acknowledged. As a minimum, the experience of the NICs, especially Korea and Taiwan, suggests that a substantial level of military development is compatible with, and even may contribute to, sustained economic growth.

III. CONCLUDING OBSERVATIONS: WHY SO FEW SUCCESSES?

I have suggested that there are several recipes or principles-- political as well as economic--which characterize the relatively few recent cases of sustained development, and differentiate them from the much larger number of unsuccessful cases. Existence of the successful cases establishes that the recipes can be followed in the environment of the "old,"--that is, the current--international economic system. Whether some "new" international economic order would be still more propitious is, of course, debatable.¹

Moreover, the previous discussion also suggests that the recipes for sustained development are neither unfamiliar nor arcane. Then why haven't more LDCs adopted them?

Certainly part of the explanation is simply that it is generally harder to do something than to know what should be done. Shakespeare expressed it eloquently:

"If to do were as easy as to know what were good to be done, chapels had been churches, and poor men's cottages princes' palaces."

But I think most of the explanation lies elsewhere.

The principal reason why there are not more instances of sustained economic development among the LDCs is that they, or more exactly, their leadership and their policymaking processes have other goals and objectives which compete for resources and attention with the goals of development. The competing objectives include greater national recognition in the international community (e.g., hyperactivity in international organizations and in diplomatic representation abroad), exercising ideological preferences (for socialism or étatism), resolving (and sometimes activating) territorial or other disputes with traditional adversaries, and emphasizing (but usually without accomplishing) international redistribution rather than domestic economic growth.

¹ I have made a preliminary attempt to conduct this debate in "A Dialogue on the 'North-South' Dialogue," *The Jerusalem Journal of International Relations*, Vol. 4, No. 1, 1979.

² The Merchant of Venice, Act I, Scene II.

If one looks at behavior rather than rhetoric, development is among, but not at the top of, the policy priorities of most of the LDCs. I believe the reverse proposition is true of the few successful cases of sustained development: Korea, Taiwan, Brazil and Singapore.

This is not to say that development should hold top priority, only that where it receives less weight relative to other aims development performance is likely to lag. There is a paradox about this. If development is accorded dominant emphasis among national objectives and policy priorities, the recipes that successful development seems to depend on impose definite limits on the extent and character of government intervention. Perhaps this paradox contributes to lowering the priority that governments actually accord the development objective in comparison with other competing objectives.

What are the prospects that this situation will change, and that more of the LDCs will adopt, and adapt, the principles of sustained development in the 1980s?

There are not many reasons for believing that prospects for additions to the short list of successful and sustained developers are brighter now than they were a decade ago. Perhaps one such reason is the demonstration effect of the countries that have been successful thus far, and can therefore motivate emulation. But I doubt that there will be a "bandwagon" effect, not because this will be inhibited by high or rising energy prices, or limited foreign aid, or the absence of a commodity stabilization fund. The development bandwagon won't progress very fast because the objectives that have competed with development, and limited its priority in the 1970s, are likely to do so in the 1980s.

Although the prospects are, in general, not bright, there are some possibilities. If an investor, or a banker, or a policymaker were to ask me where the best prospects lie, I would give a two-part reply. First, examine on a country-by-country basis which LDCs seem to be adopting the political and economic recipes discussed earlier. For this purpose, changes are as significant as levels of effort.

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Second, my casual impression is, if this country-by-country review were made, the most promising candidates would include the following: Egypt, Indonesia, Malaysia, and perhaps Turkey. If all of them reach or surpass in the 1980s the experience of the NICs in the 1970s, they and the international community will be fortunate.

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I. INTRODUCTION¹

The past decade has witnessed significant changes in the international economy, for example: a shift from fixed to flexible exchange rates; the formal "demonetization" of gold, followed by an enormous increase in its dollar price; the continuing, and occasionally massive, Soviet purchases of grain in world markets. Two other events are even more significant: first, the dramatic increase in world oil prices, leading to a redistribution from the oil importing countries to the oil exporters of two or three percent of the world's annual gross product; and second, the extraordinary success of a small number of developing countries in achieving sustained economic development in sharp contrast to the lack of such success in the 120 or so remaining non-OPEC less-developed countries.

The first of these two major changes has received, and is receiving, abundant--perhaps superabundant--attention, while the second has been relatively ignored. Though interesting, this imbalance isn't surprising. The rapidity, as well as the scale of the jump in oil prices, and the pervasiveness of its effects throughout the international economy, account for the widespread attention it has received. While much more remains to be said and done on this subject, that is not my concern here.

Instead, I want to address the second issue: the remarkable record of a small number of less-developed countries (the so-called Newly Industrialized Countries--especially Korea, Brazil, Taiwan, and Singapore) in realizing sustained economic development in the past decade.² (I define "sustained economic development" as the achievement of an annual rate of growth in real GNP of at least eight percent for the decade as a whole.)

¹An earlier version of this paper will appear in French translation in the journal *Politique Internationale*.

²I leave Mexico out of this discussion because of the special role of oil in its successful development record. The major OPEC countries are excluded for the same reason.

In comparison with the obvious significance for the international economy of the changes in oil supplies and prices, the major significance of the NIC's development record warrants explanation and emphasis. Spirited advocacy of a "new international economic order" continues in such forums as the recent U.N. Conference on Science and Technology for Development, and the Havana conference of non-aligned countries. Yet the record of the NICs in the past decade plainly suggests that dramatic and sustained economic development can be accomplished in the "old" international economic order. Moreover, by examining this record, and by comparing it with the largely disappointing experience of most of the non-OPEC developing countries, perhaps some lessons can be learned that may assist these countries to improve their own performance in the future, if they are seriously motivated to do so.

Three questions warrant attention:

- What recipes or principles for sustaining economic development can be inferred from the experience of successful developing countries?
- If there are such principles, why haven't more of the LDCs adopted them?
- And what are the prospects for their doing so in the future?

I will concentrate on the first question, considering briefly the other two in conclusion.

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II. RECIPES FOR SUSTAINED ECONOMIC DEVELOPMENT

Generalizations are hard to maintain because special circumstances make each country an individual case. National histories, institutional structures, cultures, and traditions, affect, sometimes powerfully, national economic development.

Nevertheless, I believe certain generalizations can be made drawing from both economic theory and development experience. These generalizations, or "recipes" for sustained national economic development, are supported by the few cases of successful modernizing countries over the past decade and, by counterexample, by the larger number of less successful countries, as well. I will try to cite examples to illustrate particular recipes, drawing upon this contrasting experience. The generalizations may be likened to an architect's initial design, a sketch indicating the contours of a building which may be altered in scale and detail to fit the terrain before construction begins.¹

A. Political Ingredients

That successful economic development is a problem of political economy, rather than "pure" economics, is no less true because it is a cliché. At the risk of oversimplifying, let me suggest the political conditions that seem crucial for economic developments.

Sustained economic development requires "political stability," although it may also contribute to such stability. As a condition for economic development, "political stability" has certain quite definite, and even measurable, attributes. They include especially the following: an explicit and enforced system of laws, or rules

¹ I believe the recipes would be accepted by most people who are knowledgeable in this field, although one should be wary about the possible tautology ensuing from my use of the term "knowledgeable"!

for the conduct of affairs; nonviolent economic transactions; a respected system of property rights, providing with reasonable clarity a delineation of what is public and what is private property; established and accepted rules for governmental succession, or at least infrequent occurrence of regime changes. (On this last item, democracies in developing countries may face particular difficulties in achieving sustained economic development, although the experience of Singapore, as well as that of Mexico, and Malaysia, provide evidence that these difficulties can be resolved or surmounted).

Why is political stability so essential for sustained development? I think the answer is that political stability reduces uncertainty or, equivalently, increases predictability in the particular domains, noted above, that define it. While "political" uncertainty is thereby reduced, economic and technological uncertainty remain. This residual economic-technological uncertainty is ineluctable; attempts to ignore or remove it will generally backfire. The reason is that the "best" choices as to which products or services to produce, and which processes to use in producing them, are usually not known in advance. Alternatives must be developed and tested. Typically, some degree of decentralized decisionmaking about the alternatives, and competition among them, helps assure that the best will survive and prosper. In this sense, the residual economic uncertainty, lodged in a competitive environment, can have a positive effect on prospects for sustained economic development because it provides an opportunity and incentive for innovation and increased productivity. It thereby provides a useful, though certainly not infallible, mechanism for distinguishing and selecting between more and less productive uses of resources.

By contrast, political uncertainty or instability does not have this growth-promoting effect. Instead, it may place in jeopardy otherwise sensible economic transactions, and provide incentives to divert resources from producing goods and services to producing political favors and insurance. Consequently, removing or reducing

these forms of uncertainty (by the maintenance of political stability) is likely to contribute to development.

It should be evident, of course, that political stability is a necessary, not a sufficient, condition for sustained development. Sufficiency requires that political stability be combined with the economic conditions, to which I now turn.

B. Economic Ingredients

1. Market Orientation

Sustained development seems to be closely associated with a high degree of economic decisionmaking in response to market forces. This is not to say that markets and market prices have the appealing characteristics associated with neoclassical models of perfect competition. Indeed, the typical product and factor markets of developing countries have even more than the usual market imperfections normally associated with the economies of developed countries. But, even granting the numerous sources of market failure that inevitably result in marked inefficiencies in the use of resources, the failures of non-market alternatives to yield efficient outcomes are typically even more pronounced. At least, this conclusion appears warranted from the contrasting experience of the few successful developing countries, and the large number of unsuccessful ones; the former have typically been characterized by a more active role for market forces than one finds in less-successful developing countries.¹

¹ I am agnostic on the point of whether certain countries among the centrally planned economies (perhaps Rumania or North Korea) represent counters to these observations. One question arises as to their real economic growth rates if their output statistics are properly deflated and interpreted. If the meaning of "sustained economic development," is enriched to include, say, a five percent or higher annual rate of growth in per capita consumption, a question arises as to whether the CPEs would qualify. And there is, finally, a question as to whether some CPEs have themselves begun to take advantage of what I've called "market orientation," for example, by competing in international markets against the exports of other countries.

Even if the growth rates of some CPEs would enable them to meet

In other words, "non-market failure" is no less, and typically is more, of an inhibitor of development than is market failure.¹

When one examines the development experience of the high and the low performers, it is noteworthy that probably the main growth-promoting effect of market forces and market prices does not occur through the static, allocative efficiency so cherished in standard micro-economic models. Rather, the effect of a market orientation is to set in motion dynamic economic changes through the pressures of competition, incentives for innovation and increased productivity, and through the severe screening and discipline imposed by market forces.

This is not to say that the role of markets is or should be unfettered in the developing countries, or in developed countries. Government policy interventions have played major roles in the successful development records of Brazil, Korea, and Taiwan. For example, agricultural prices in Korea have been pegged for the past decade at levels above the world market in order to maintain rural incomes at a parity with those of urban workers, thereby discouraging excessive urbanization, as well as providing incentives for increased agricultural output. This was a special and selective policy

the criteria of "sustained economic development," it seems clear that their developmental records have been markedly less efficient than those of the high performance LDCs (such as Korea, Singapore, Brazil, and Taiwan), in which the role of market influences has been unquestionably larger. By efficiency, I mean simply that capital-output ratios and input-output ratios appear to have been substantially higher in the centrally planned economies than in the others. To the extent that some of the CPEs do in fact meet the criteria of sustained development, they appear to do so by virtue of mobilizing a large volume of inputs: the "big" push, rather than the efficient one. At the same time, it may be argued that there is a tradeoff between efficiency and equality in their development records. The extremes between high and low incomes and wealth may be less in the successful CPEs than in the successful "market" economies. I have heard assertions, but have not seen evidence, to establish this position.

¹The important, and neglected, phenomena of non-market failure are discussed in my paper, "A Theory of Non-Market Failures," *The Public Interest*, Volume 55, April 1979.

intervention, deliberately chosen for social and political reasons, rather than for reasons of economic efficiency. It is interesting, too, that the agricultural price supports have gradually been lowered, and are now to be removed.

Also, "infant" export industries have been initially encouraged in the NICs by various means, including preferential tax treatment of export earnings. But full-cost pricing of inputs, and gradual reduction or removal of favorable tax treatment, have typically been enforced. Import substituting industries, though initially protected, have been forced to compete with foreign imports. Korea, for example, is currently a more "open" economy than is Japan!

In all of these cases, policy interventions have been important. Also, they have usually been selective, precisely targeted, limited in number, and implemented through price incentives rather than more direct controls. The general principle remains: the market mechanism has typically played a substantial role in the economies of the successful developing countries, thereby providing powerful incentives for innovation and efficiency, and exercising a strict discipline to filter out waste and inefficiency.

Strictly speaking, this point about market orientation is not equivalent to an argument in favor of private, rather than public, enterprise. Rather, the point is that neither public nor private enterprise is likely to perform efficiently in a static, allocative sense nor in a dynamic, innovative sense, without the spur and challenge of some form of market mechanism.

One reflection of the predominant market orientation of the high performing countries has been the sharp increases in their exports on world markets. Clearly, exports have to compete in world markets, and this tends to produce the discipline, screening, and incentives referred to earlier. When export expansion occurs in response to such "natural" forces and opportunities, it is surely growth-enhancing. For example, Korea's annual rate of growth in export volume between 1973 and 1978 was nearly 20 percent, and that of Taiwan nearly 15 percent in real terms.

Brazil's exports grew at an annual rate of 4.8 percent in this period, but its export growth rate was nearly 20 percent per annum in the prior 1966-73 period.

However, I would express some uneasiness lest the currently fashionable enthusiasm for export promotion might lead in the direction of protected (by subsidies) and fragile export industries. Excessive use of export subsidies and other special measures to promote exports may cause a waste of national resources, just as an overactive effort to promote import substitutes, insulated from market forces and prices, has done in the past.

One particular type of export may be worth greater attention, on comparative cost grounds, than it has usually received in development planning: the combination of unskilled and semi-skilled labor, together with management and technological skills, in performing a variety of construction and engineering services abroad. The success of Korea in this form of "packaged" services' export may be worth study and emulation. Building from a figure of a few hundred million dollars in earnings and remittances only four or five years ago from such exports, Korea currently is realizing earnings and remittances of over \$4 billion a year from engineering and construction services performed in foreign countries, most notably in the Middle East. These earnings are equal to about one-third of Korea's foreign exchange earnings from exports of goods. This experience is probably more relevant for countries like Turkey or India, that have already reached a requisite threshold of development in certain technologically-advanced sectors of their economies, than to the majority of the less-developed countries.

2. Inflation

The perverse effects of hyperinflation on economic growth are both serious and well known. The past and recent experiences of developed countries (e.g., the United Kingdom, Italy, and currently, the United States), as well as that of developing countries (e.g., Argentina, Colombia, Turkey), provide ample support for this proposition. Hyperinflation results in capital flight, and generates disincentives to capital inflow, as well as reducing remittances from abroad. If the

exchange rate is pegged, or the rate is only allowed to depreciate more slowly than the rate at which prices of tradeable goods and services are rising, then the result of hyperinflation is to stimulate imports and to penalize exports. Hyperinflation also tends to discourage internal investment, as well as to divert it to rapidly inflating commodities, such as real estate and precious metals, thereby transferring investors' wealth to the original owners who are more likely to increase their consumption. These symptoms have certainly characterized the economic maladies of various developing countries in recent years.

While there is a consensus about the foregoing perverse effects of hyperinflation, there is less agreement as well as less supporting evidence as to whether "modest" inflation may be consistent with, or even help to advance and sustain, economic development. For example, it is sometimes argued that a modest rate of inflation may help development by raising the rate of (forced) savings, and by validating, and thereby stimulating, investment (to the extent that increases in costs don't take fully or "rationally" into account expectations about future increases in prices).

As I have indicated, opinion tends to be divided on this argument. The International Monetary Fund and World Bank usually are categorically opposed to it; some others, particularly in Latin America, often support it. There is at least some evidence (for example, in the experience of Brazil, Korea, and Taiwan), that a modest rate of price inflation is compatible with sustained economic growth.

My own judgment is closer to, though perhaps not as categorical as, that of the IMF and World Bank. In part, the issue relates to where one establishes the threshold of "modest" inflation that is compatible with, let alone contributing to, sustained development. This threshold would seem to lie somewhere below 10 to 15 percent as an annual rate of permissible inflation. This rate is in fact capped in most cases of sustained development in the successfully developing countries. However, even at this threshold, questions arise as to whether such a threshold can be maintained: (a) if rational, rather than adaptive expectations prevail in the economy; and (b) if monetary policy is, or becomes,

accommodating of the rate of inflation. If these conditions exist, the 10-15 percent range may be short-lived.¹

3. Capital Inflow and Foreign Investment

Capital inflow has provided a critical input to the sustained economic performance of the Newly Industrialized Countries. For example, in Korea foreign capital inflow in 1978 amounted to approximately \$2.6 billion, over 20 percent of Korea's total export earnings. And the bulk of the capital inflow (about \$2.0 billion) was on long-term capital account. I think this pattern is likely to be characteristic of sustained growth in the developing countries.

Different types of capital imports have differing consequences. Hence, the composition of capital inflow is as important as its magnitude. For example, capital inflow can be accommodating (i.e., equilibrating the net surpluses or deficits on current account), or it can be autonomous, in response to market incentives. Capital inflow can take the form of short- or medium-term borrowing or program foreign aid (of the type extended in the past to Korea, as well as India, Turkey, and other countries), as examples of accommodating inflows. Capital inflows can alternatively take the form of long-term borrowing and foreign direct investment, as examples of autonomous inflows. A useful role can be played by both types of capital inflow.²

In Brazil, Korea, and Taiwan, for example, the bulk of the capital inflow--about two-thirds or three-quarters--is probably autonomous and long-term, with an initially small component of direct investment that rose substantially as the economy's growth and potentialities were demonstrated. In 1967-69, for example, direct investment in Korea averaged

¹ Israel's recent record of reconciling three-digit inflation with significant growth in real GNP does not seem to me to disconfirm the preceding observations. Not only is the adroitness of its indexation policy atypical of other countries, but Israel's ability to finance the resulting balance of payments effects is unusual, and likely to be temporary.

² It would be interesting and useful to consider the notion of an optimal "balance" between them, depending on the stage of a country's economic development and modernization.

only \$24 million, or about 5 percent of Korea's annual net borrowing. By 1972-74, annual direct investment reached \$172 million, about 24 percent of foreign borrowing.¹ Direct investment in Brazil has played a relatively larger role.

By contrast, in most other less-developed countries, cumulative capital inflow in recent years has been of the accommodating, short- and medium-term type. For example, of Turkey's total external indebtedness--approximately \$13 billion at the end of 1978--more than \$7.5 billion was short- and medium-term debt.²

The direct investment component of capital inflow warrants special comment.³ There are important economic and technological advantages associated with foreign investment, as well as some possibly significant political disadvantages.

Foreign direct investment (FDI) typically includes as part of the investment package, new technology that can usefully be adapted and diffused throughout a newly developing economy. Also, the debt service entailed by FDI tends to be flexible, and related to the performance of the host economy. Consequently, to the extent that capital inflow is in the form of FDI, as well as long-term loans, the economy is better able to keep its debt service ratio within a range of, say, 10 to 15 percent, rather than the 35 percent or higher figure that currently faces Turkey.

FDI is also typically, though often indirectly, related to increases in exports, especially exports to the home country from which the investment came in the first instance. The increased exports often resulting from FDI typically occur because the foreign investors are able to anticipate and resolve the distribution and marketing problems facing exports

¹See Anne O. Krueger, *The Developmental Role of the Foreign Sector and Aid*, Cambridge, 1979, pp. 145-147.

²See Report and Recommendation of the President of The World Bank to the Executive Directors on a Proposed Loan to Turkiye, Sinai, Kalkinma, Bankasi, June 21, 1978, page 11.

³One of the shortcomings of large macro-econometric simulation models, currently in favor in The World Bank and in many developing countries, is their tendency to treat capital inflow as a single variable, without distinguishing the different types, the incentives to which they respond, and the different effects which they have.

to their own markets. This know-how can be important. For example, while the Generalized System of Preferences (GSP) of the U.S. Trade Act of 1974 allows imports to the U.S. of over 2,700 products from the developing countries on a duty-free basis, to take practical advantage of GSP requires the distributional and marketing know-how that is apt to be associated with foreign investment in the LDCs, or with joint ventures that combine foreign investment with local investment, or with direct marketing and licensing agreements.

The Korean experience is a case in point. During the past decade Korea's rate of real economic growth has been over 9 percent per annum. In the same period, its exports to the United States have grown by a factor of 17, from \$237 million in 1968 to \$4.1 billion in 1978 in current prices, a factor of over 5 in constant prices, and an annual rate about twice that of Korea's GNP.¹ Moreover, contrary to some views, this remarkable expansion has not been due to special access by the Koreans to the U.S. market through tariff preferences or preferential treatment with respect to non-tariff barriers. Among the major explanations for this striking development have been marketing and licensing agreements with foreign firms, a small but growing quantity of American direct investment in Korea, and joint Korean-American enterprises, able to enter and expand distribution in the American market through the marketing know-how and experience associated with these enterprises. This pattern has characterized expanded Korean exports of clothing, luggage, shoes, and electronics. In other words, foreign direct investment has been a means of stimulating exports.

At the same time, there are also risks and disadvantages associated with foreign investment. Nationalist resentment against foreign economic intrusion may be active, or be activated. Foreign investors may behave with less consideration of local customs and culture than would be desirable. They may favor importing foreign managers rather than training local ones. Governments that are hospitable to FDI may be or become vulnerable targets for charges of foreign influence or subservience. The list of political hazards is long.

¹Exports in current prices deflated by Korea's export unit-value index. International Monetary Fund, *International Financial Statistics*, November 1975 and August 1979.

Clearly, each developing country has to make its own decisions about where the balance lies between the economic advantages and the political risks and disadvantages associated with FDI.

4. Technological Importation, Adaptation, and Diffusion

Rapidly growing economies, whether newly developing or advanced, are characterized by a high rate of technological progress. There are various ways of measuring this progress. The simplest and most frequently used method is to calculate increases in labor productivity, which typically rises at an annual rate of perhaps 5 to 7 percent in rapidly growing economies. However, labor productivity is an ambiguous indicator of technological progress, strictly construed, because labor productivity may rise due to increases in the capital-labor ratio without any necessary changes in technological production functions. The latter is more accurately discernible through increases in total factor productivity, rather than the productivity of labor alone. This measure--the ratio between increased real output and an appropriately weighted sum of both capital and labor inputs--also tends to rise dramatically and protractedly in rapidly growing economies, at a rate of about 5 percent per year.¹

Needless to say, there are a number of contributors to these calculated advances in technology, as well as myriad problems of accurate measurement. For example, part of the calculated estimates of increased total factor productivity typically results from a shift of factors of production, especially labor, from lower productivity sectors, such as agriculture, to higher productivity sectors in industry. Another part

¹ A similar rate seems to apply to both fast-growing developing countries and developed countries, exemplified by Taiwan and Japan, respectively. By contrast, the growth realized by slowly growing countries seems to be fully accounted for by increases in inputs of capital and labor. In these cases, increased labor productivity is realized only by increases in capital-labor ratios, rather than by increases in efficiency. See C. Wolf, R. Gangadharan, and K. C. Han, *Industrial Productivity and Economic Growth*, Tokyo, 1964. See also E. E. Hagen, *The Economics of Development*, Homewood, Illinois, 1975, pp. 253-260.

of the "residual" in such productivity estimates may result from improvements in human resources, through education and training. But a substantial part of the residual is due to technological advancement: to improved modes of production; to innovation in both what goods and services are produced, and how they are produced; to modernization of management, as well as equipment.

How can developing countries realize more rapid rates of technological progress?

One way is through direct investment from abroad which, as I have already suggested, typically combines the import of new technology together with the investment package. But there is also a growing market for "unpackaged" technology, for purchasing engineering and management services to collaborate in the design, construction, operation, and training functions associated with the establishment of productive new technology.¹ Where new technology is bought on the open market, it is important to realize the special nature of what is being acquired. Technology should be thought of as a flow rather than a stock variable; that is, as a process that *requires adaptation, renovation, and modification* if it is to be successful and sustained, rather than as a tangible entity that, when once purchased, is securely acquired. All too frequently, a "turn-key plant," originally purchased at a high price by a developing country, is poorly maintained, breaks down or functions at a low rate of capacity, or fails to be replicated and diffused in the host country. Without the necessary environmental support, the result is at best a temporary enclave of modern technology, and at worst a complete waste of national resources.

¹ It should be evident that not all new technology is "productive" in the sense of being efficient, given its costs. For example, capital-intensive technology may not be "productive" in developing countries, whose costs of capital are likely to be high relative to labor costs. In developing countries, new technology that is also productive is likely to be labor-using and capital-saving, in the aggregate, even though the new technology is likely to require different capital inputs.

C. Security Ingredients: Relationships Between Economic Development and Military Development

The standard, conventional view of the relationship between economic development and military development is that they are competing claimants for scarce and fungible resources. The more guns produced or procured, the less butter will be available or, for that matter, the less machinery, the fewer textiles and leather fabricating plants, transportation vehicles, and so on. Resources are fungible, and military development is likely to absorb resources otherwise available for developmental investment or for personal consumption.

This is the predominant relationship that exists between economic and military development in static, allocative terms, and under macro-economic conditions that are more or less in equilibrium (i.e., resources are more or less fully employed, political externalities and expectations are assumed to be constant, etc.). It is the predominant relationship that obtains in most developed countries, and in those LDCs that come close to these equilibrium conditions.

However, in the real world, the relationships between military and economic development are more complex, both in economic and in political terms. For example, economic conditions in developing countries typically are very far from equilibrium. Hence, resources used for military purposes (more likely labor than capital) may not reduce, and instead may even supplement, resources contributing to economic development. It may then be possible to have more guns and butter, too.

Furthermore, economic development itself is typically politically and socially destabilizing, if not disruptive, at least in the short and medium term. In the absence of appropriate and sufficient military and security capabilities to prevent or contain the disruption, economic development may be aborted. The political ingredients necessary for sustained economic development may be vitiated. By averting this outcome, resources devoted to security purposes may complement, rather than conflict with, economic development. That this may be the outcome in some

cases, of course, does not imply that it will be in all or most. The development and use of military capabilities and forces may also set back economic progress, both internally and externally.

To deal with the security dimensions of development would carry me beyond the limited space of this paper. These brief observations are simply intended to suggest that the military and security dimensions of sustained economic development are both more complex and more important than is generally acknowledged. As a minimum, the experience of the NICs, especially Korea and Taiwan, suggests that a substantial level of military development is compatible with, and even may contribute to, sustained economic growth.

III. CONCLUDING OBSERVATIONS: WHY SO FEW SUCCESSES?

I have suggested that there are several recipes or principles-- political as well as economic--which characterize the relatively few recent cases of sustained development, and differentiate them from the much larger number of unsuccessful cases. Existence of the successful cases establishes that the recipes can be followed in the environment of the "old,"--that is, the current--international economic system. Whether some "new" international economic order would be still more propitious is, of course, debatable.¹

Moreover, the previous discussion also suggests that the recipes for sustained development are neither unfamiliar nor arcane. Then why haven't more LDCs adopted them?

Certainly part of the explanation is simply that it is generally harder to do something than to know what should be done. Shakespeare expressed it eloquently:

"If to do were as easy as to know what were good to be done, chapels had been churches, and poor men's cottages princes' palaces."

But I think most of the explanation lies elsewhere.

The principal reason why there are not more instances of sustained economic development among the LDCs is that they, or more exactly, their leadership and their policymaking processes have other goals and objectives which compete for resources and attention with the goals of development. The competing objectives include greater national recognition in the international community (e.g., hyperactivity in international organizations and in diplomatic representation abroad), exercising ideological preferences (for socialism or étatism), resolving (and sometimes activating) territorial or other disputes with traditional adversaries, and emphasizing (but usually without accomplishing) international redistribution rather than domestic economic growth.

¹ I have made a preliminary attempt to conduct this debate in "A Dialogue on the 'North-South' Dialogue," *The Jerusalem Journal of International Relations*, Vol. 4, No. 1, 1979.

² The Merchant of Venice, Act I, Scene II.

If one looks at behavior rather than rhetoric, development is among, but not at the top of, the policy priorities of most of the LDCs. I believe the reverse proposition is true of the few successful cases of sustained development: Korea, Taiwan, Brazil and Singapore.

This is not to say that development should hold top priority, only that where it receives less weight relative to other aims development performance is likely to lag. There is a paradox about this. If development is accorded dominant emphasis among national objectives and policy priorities, the recipes that successful development seems to depend on impose definite limits on the extent and character of government intervention. Perhaps this paradox contributes to lowering the priority that governments actually accord the development objective in comparison with other competing objectives.

What are the prospects that this situation will change, and that more of the LDCs will adopt, and adapt, the principles of sustained development in the 1980s?

There are not many reasons for believing that prospects for additions to the short list of successful and sustained developers are brighter now than they were a decade ago. Perhaps one such reason is the demonstration effect of the countries that have been successful thus far, and can therefore motivate emulation. But I doubt that there will be a "bandwagon" effect, not because this will be inhibited by high or rising energy prices, or limited foreign aid, or the absence of a commodity stabilization fund. The development bandwagon won't progress very fast because the objectives that have competed with development, and limited its priority in the 1970s, are likely to do so in the 1980s.

Although the prospects are, in general, not bright, there are some possibilities. If an investor, or a banker, or a policymaker were to ask me where the best prospects lie, I would give a two-part reply. First, examine on a country-by-country basis which LDCs seem to be adopting the political and economic recipes discussed earlier. For this purpose, changes are as significant as levels of effort.

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Second, my casual impression is, if this country-by-country review were made, the most promising candidates would include the following: Egypt, Indonesia, Malaysia, and perhaps Turkey. If all of them reach or surpass in the 1980s the experience of the NICs in the 1970s, they and the international community will be fortunate.